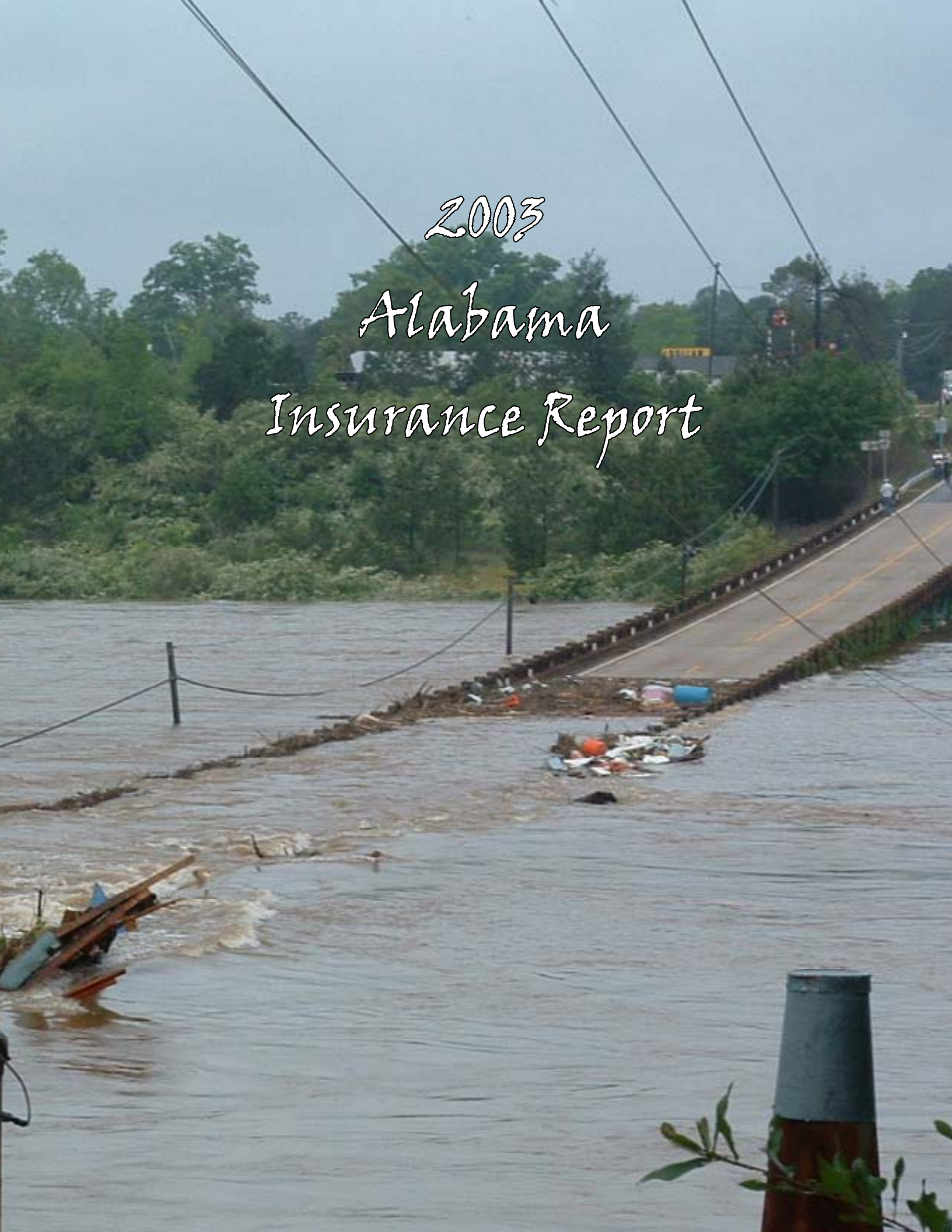


*2003
Alabama
Insurance Report*



The Honorable

Bob Riley

Alabama's 52nd Governor



Governor Bob Riley was sworn into office as Alabama's 52nd chief executive on January 20, 2003, after representing the state for six years in the United States Congress.

Governor Riley comes into office during troubling financial times within the state's education, correction, and transportation systems, along with several other agencies. He has pledged a host of reforms from constitutional to budgetary, to reshape Alabama's government into a model of efficiency and competency.

"Alabama's government was established serve the citizens, not the system," says Governor Riley. "I believe that our nation's first responsibility is to defend its people, a state's first responsibility is to educate its young."

Governor Riley has appointed successful and proven leaders to head the various state agencies needing urgent attention, and has recruited a world-class staff to help implement his many proposals for change.

Governor Riley was born and raised in the small Clay County town of Ashland, where his family has lived on ranches and farms for six generations.

After graduating from the University of Alabama at the age of 20 with a degree in business administration, he returned to his hometown, married his high school sweetheart and started a small business

with his brother selling eggs door-to-door. That small, family-owned venture grew to become one of the largest integrated poultry operations in the Southeast.

For 32 years, Governor Riley ran a number of successful businesses, including a trucking company, a real estate company, a car dealership, a grocery store, and a small pharmacy. A cattleman for the last 25 years, he has more than 400 head of cattle on his Ashland ranch.

In 1996, when Alabama needed leaders to fundamentally change the course of government in Washington, Bob Riley, a political unknown, answered the call and kept his pledge to serve only three terms.

Governor Riley has been very active serving his community as both a Shriner and a Mason. He and his family are members of the First Baptist Church of Ashland, where he taught the men's Sunday school class for a number of years and also served as Chairman of the Church's Board of Trustees.

Governor Riley is married to the former Patsy Adams, also from Clay County. The Rileys were blessed with four children, Rob, Jenice, Minda and Krisalyn. Jenice, the Riley's first daughter and the campaign's first fund-raiser, passed away in August 2001 after inspiring people through her courageous fight against cancer. The Rileys are also the proud grandparents of two granddaughters and one grandson.

About this report

Fundamental changes have been made in the way this report has been prepared as compared to previous reports from the Alabama Department of Insurance.

This year's report provides information about the inner workings of the various divisions of the Department, and it supplies statistical information regarding the Department.

Previous annual reports contained information regarding companies licensed to do business in Alabama. In order to save the taxpayers' money, this information is available online at www.aldoi.gov. Additionally, the Alabama State Fire Marshals Office report is another stand-alone item on the web site.

By taking these steps we are able to provide the public with more information at a fraction of the cost. This report was edited by Assistant Commissioner Ragan Ingram and Sean Duke of the Examination Division.

Walter A. Bell Commissioner



The plan was to come home to Mobile and retire. Well, maybe semi-retirement and save some time for golf and fishing. That was Walter Bell's plan when left New York at the end of 2002 to return to his hometown.

His best-laid plans were shortly laid to waste. Within days of his return to Alabama, then Gov.-elect Bob Riley asked Bell to put off retirement, stow away the golf clubs and fishing rod and go to work.

On January 23, Walter A. Bell became the 36th Commissioner of Insurance. The job has had different names in the past, but the duties are the same. Commissioner Bell is the state's chief insurance regulator, a Cabinet member and the administrative head of the Alabama Department of Insurance.

"I certainly had no plans to do something like this," Commissioner Bell says. "I talked with Governor Riley about the kind of department I'd like to see. He talked with me about the kind of state government he wanted Alabama to have. We found out that we share the same philosophy: the people deserve an efficient government that looks first and foremost to

protecting the needs of the people."

Commissioner Bell brings a wealth of experience to his position. In 1979, he started his financial services career as a branch manager for First National Bank in Mobile, which is now AmSouth Bank.

After four years as a banker, Commissioner Bell became a financial professional with The MONY Group, advising clients on issues of insurance and financial planning.

Over the next 14 years, he developed a successful business and earned recognition nationally for his achievements. In 1996, The MONY Group gave him added responsibilities by naming him its National Director of Emerging Markets. He continued his work in Mobile as a financial planner as well as handling his corporate duties.

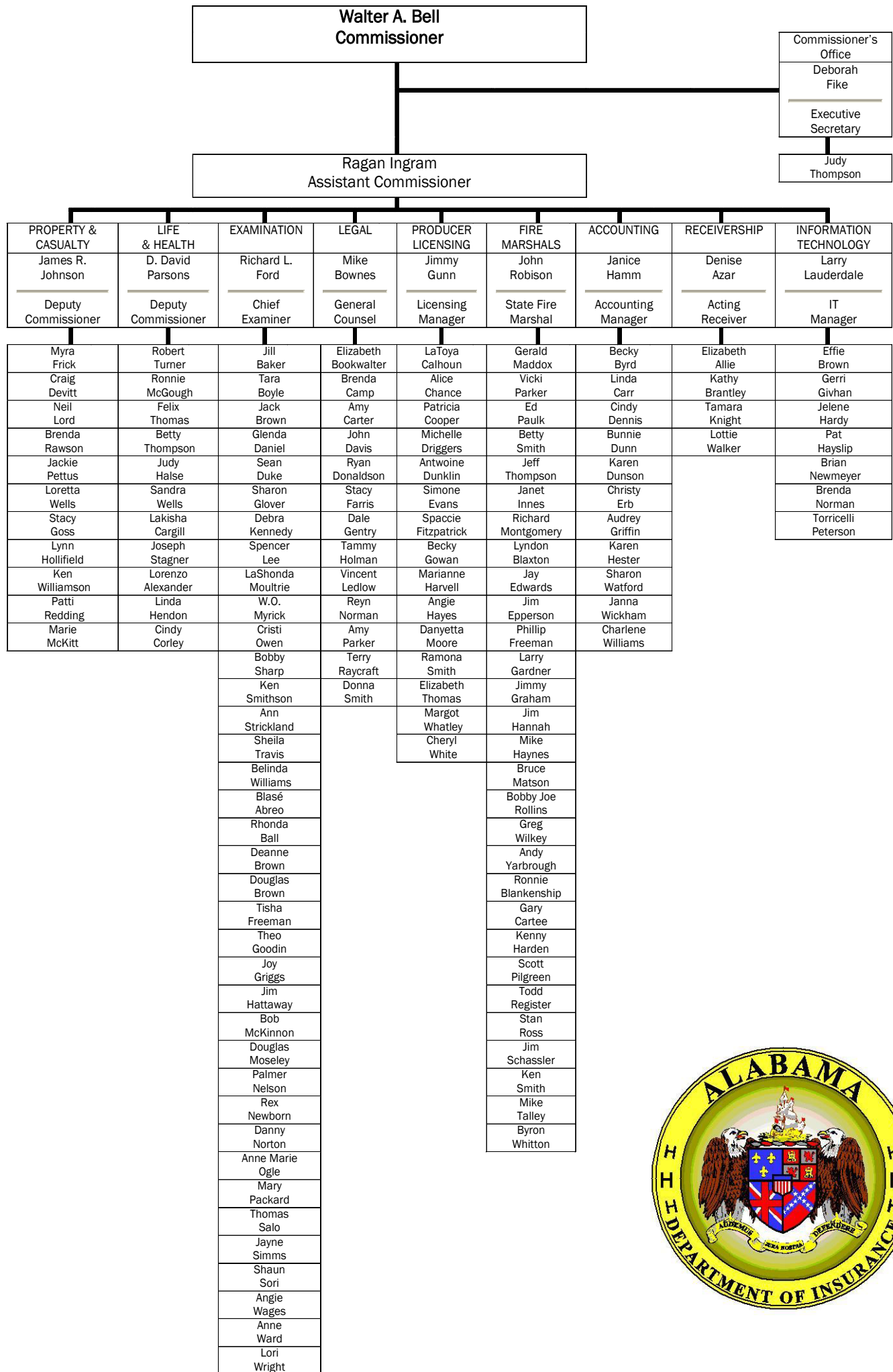
In 1999, The MONY Group named Commissioner Bell its Vice President for Diversity Marketing thereby expanding his role in the company as a force for market and workforce development.

Community involvement has been a hallmark of Commissioner Bell's

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GOVERNOR

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D. DAVID PARSONS
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

September 15, 2003

The Honorable Bob Riley
Governor
State of Alabama
State Capitol
Montgomery, Alabama 36130

RE: 2003 Annual Report

Dear Governor Riley:

In compliance with the provisions of § 27-2-9, Code of Alabama 1975, I have the honor to transmit herewith the annual report of the Alabama Department of Insurance covering the period of January 1, 2002, to December 31, 2002. The statistical data used in the financial section of this report comes directly from the annual statements filed by the various companies, without audit or verification.

Respectfully submitted,

Walter A. Bell
Commissioner

WAB:gri:df

2003 Legislative Report

Fireworks regulation highlights regular session

Two bills enacted by the Alabama Legislature in the 2003 Regular Session will impact the insurance industry or the Alabama Department of Insurance.

A bill to revise statutes related to reinsurance was sponsored by Representative Mike Hill of Columbiana and Senator Wendell Mitchell of Luverne. It was enacted by the Legislature and signed into law by Gov. Bob Riley.

Included among the revisions set forth in this model law is the ability for a reinsurer to pay claims directly to the claimant



ESCOTT

rather than to the receiver in cases where the insurer is insolvent.

The other new law will be enforced by the Alabama State Fire Marshals Office. After the

tragic fire at a nightclub in Rhode Island, the Department and the Alabama State Fire Marshals Office asked the Legislature to pass a bill regulating indoor pyrotech-



NEWTON

nic displays.

Representative Charles Newton of Greenville and Senator Sundra Escott of Birmingham sponsored the bill.

The new law will require those

wanting to have an indoor pyrotechnic display to be subject to an inspection by the State Fire Marshals Office, which will apply national standards to the display.



Reyn Norman Legislative Liaison

Reyn Norman has served as an associate counsel with the Alabama Department of Insurance for the past 13 years. As a part of his duties, he is the Department's chief legislative liaison.

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Fraud bill top legislative priority in '04

There are other issues that the Alabama Department of Insurance wants to address in future legislative sessions. Some will require new laws, other only amendments to current law.

Here are some of the areas in which the Department will seek the Legislature's help:



HILL



LITTLE

- Create the crime of insurance fraud and authorizing the Department to investigate suspected fraud. The legislation also provides for civil and criminal penalties. Rep. Mike Hill and Sen. Zeb Little sponsored the bill in 2003.
- Revision to the Alabama In-



KNIGHT



MITCHEM

urance Guaranty Association Act to increase the maximum assessment for the workers' compensation fund from 1 percent to 2 percent. The workers' compensation fund will exhaust its resources without this additional money. As the assessment serves as a tax deduction for companies, certain fees would be increased to cover the loss of money to the General Fund. In 2003, Representative John Knight (HB 577) and Senator Hinton Mitchem (SB 378) sponsored this bill.

- Revisions to existing law to clarify that Health Care Service

Continued on Page 31

Life and Health Division



LaKisha Cargill, an employee in the Life & Health Division, reviews a file on behalf of an Alabama citizen. The Life & Health Division serves as the people's watchdog over life, health, and other related types of insurance companies.

Life & Health keeps pace with rapid changes

The insurance industry changes at a rapid pace, and that means regulators have to be ready to react to change – or even better, anticipate it.

The Life & Health Division of the Alabama Department of Insurance takes that goal to heart every single day. The mission of the division is to make sure the life, health and accident policies issued in Alabama are fair and that they comply with Alabama law, and to make sure that Alabama citizens' are treated fairly by insurance companies and producers.

"The insurance industry is drastically different than it was when I first came to work," says Deputy Commissioner David Parsons, who is the division chief. "A lot of the change in the industry – particularly the desires of the industry to change the ways it is regulated – affects this division especially."

The Life & Health Division is participating in two national programs aimed at improving state regulation of the life insurance industry.

Companies are required by law to submit proposed policies for approval. Alabama is now using the SERFF electronic system, which allows companies to get their approval in a more timely fashion. That allows consumers to have access to beneficial products in a shorter time frame.

Alabama is one of 10 states nationwide participating in another program that allows companies to have policies approved for more than one state at a

David Parsons Deputy Commissioner

David Parsons is a 28-year veteran of the Department, having served as Deputy Commissioner of Life and Health for 20 years and served as Commissioner from 1999-2003.



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time. That's one of the common complaints of industry is that it must deal with separate jurisdictions in order have policies approved.

Seeing the need to speed up the process, the National Association of Insurance Commissioners have been putting programs in place where the states cooperate without surrendering regulatory authority.

"Alabama citizens need Alabama regulators," Parsons says, "but there is value in cooperative efforts. We must always be looking out for the public's interest, so that's why we invite the people to call, write, e-mail or visit us."

Property and Casualty Division

Lynn Hollifield spends all day on the telephone, lending a friendly ear to Alabama citizens that are having problems with their auto or homeowners insurance.



Johnny Johnson Deputy Commissioner

Johnny Johnson has served as Deputy Commissioner for the past two and a half years. He has served with the Department for 23 years.

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Road show gives public greater access

Some of the most striking images that confront us in the media come from tragedies – such as tornadoes or automobile accidents. Perhaps the thought exists in the back of the mind is whether those involved have insurance.

When people in those circumstances have insurance and need help making sense of it, that's where the Property & Casualty Division of the Alabama Department of Insurance comes in.

"Whether it is a question about claims or rates or interpreting policy forms," says Deputy Commissioner Johnny Johnson, "we are here to help people."

Toward that end, the division worked in tandem with the Life & Health Division to conduct an outreach program in different parts of the state.

"We went to cities other than the Big Four of Birmingham, Huntsville, Mobile and Montgomery," Johnson

said. "We want the people of Alabama to know that we have a staff here ready to help."

In the past year, the division has helped tornado victims. When the medical malpractice market was on the verge of collapse, the division, along with the Examination Division, kicked into overdrive to help hundreds of physicians find replacement coverage. Also, the division expedited a request to approve a new malpractice carrier for dozens of Alabama hospitals.

"We realize we have to respond quickly to events that surround us," he said. "We make sure, though, that we are not acting in a haphazard fashion."

When a large insurance company sought to increase its premiums in the state by 26 percent, the division saved Alabama policyholders more than \$33 million by negotiating with the company to obtain a more manageable amount.

Producer Licensing Division



Training is an important aspect of the daily activities in the Producer Licensing Division. Angie Hayes, right, fields a call from a citizen and offers some advice to colleague Shelly Segrest.

Division launches on-line renewals, expands testing sites for producers

Reducing paperwork is one of the top goals each year for the Alabama Department of Insurance.

More than any other division at the ALDOI, the Producer Licensing Division is most affected by this goal. The division is responsible for licensing insurance producers – both initial licensees and renewals. There are 38,000 people – some Alabama residents, others not – licensed to sell insurance in Alabama.

The division is also responsible for issuing appointments – the linkage between producers and the companies they represent.

“The essence of licensing has been rooted in paper,” says Jimmy Gunn. “What we’re trying to do is changes essences, so to speak. Commissioner Bell has made reducing paper his top

goal, and that fits in with what we want to do and need to do.”

The results are promising. In June 2003, the Producer Licensing Division, in conjunction with the Information Technology Division, launched an online renewal program. Instead of automatically sending in a piece of paper with a check to renew a license, insurance producers were given the option of filling out forms online and paying with a credit card.

The Producer Licensing Division took another major step this year. For the past few years, the licensing examination that must be taken by Alabama residents who want to sell insurance in the state was offered at only one site.

ALDOI now offers the test in Montgomery, Birmingham, Huntsville, Mobile, Tuscaloosa and Troy.



Jimmy Gunn
Licensing Manager

Jimmy Gunn has been with the Department of Insurance for 14 years, and has been Licensing Manager for the past three.

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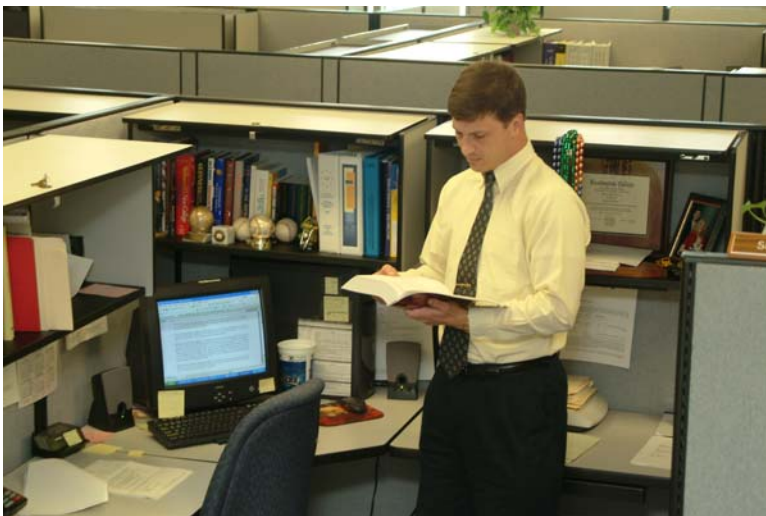
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Examination Division

The Examination Division of the Alabama Department of Insurance is responsible for looking after the financial solvency of companies that do business in Alabama. That means examiners like Spencer Lee keep up with the financial status of more than 1,500 companies, including 48 insurance companies headquartered in Alabama.



Examination serves as first line of defense for consumers

What good is an insurance company to its policyholders if it is insolvent? The answer is simple: not much at all.

The Examination Division of the Alabama Department of Insurance has the mission of making sure the insurance companies doing business in Alabama are solvent.

"We view our division as the first line of defense between Alabama's citizens and potentially troubled insurance companies," Chief Examiner Richard Ford says.

"We work under nationally recognized standards to make sure that the laws of Alabama and the regulations of the Alabama Department of Insurance are followed."

In the past year, the Examination Division established a market conduct examination function.

It is a mechanism to make sure that insurers are treating policyholders and claimants according to the terms of policies.

"That has taken a lot of effort to implement, but it is an important

thing for the people of Alabama," Ford says.

Because the division collects massive amounts of financial reports from companies, the need to move toward electronic data storage was an obvious one.

"We are working every day to move our paperwork to a paperless environment," Ford says. "We implemented new software last year to scan more files into an electronic format."

Because of the wide scope of its duties, the division's goal for the next year has to do with staff development.

"We've got a good group of people," Ford says. "We are the largest division at the Alabama Department of Insurance, and we view our jobs as very important."

"We are training our staff in the latest techniques in risk assessment and insurance fraud detection."

"As I said before, we're the first line of defense. We don't want anything to get past us."



Richard Ford
Chief Examiner

Richard Ford has been with the Alabama Department of Insurance for 22 years, and has been Chief Examiner for the past 11..

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Receivership Division



Kathy Brantley inspects records of an insurance company in receivership with the Department.

Receivership helps pick up pieces of insolvent companies

There is an end to every bad road. At the Alabama Department of Insurance, the end of that road is the Receivership Division.

The idea is for no company to ever get to the end of that road, but if it does, the Receivership Division is there to protect the people's interest when a company goes insolvent.

"Our basic job is to marshal and defend the assets of an insolvent company in order to rehabilitate or liquidate the company," says Denise Azar, who as division chief is known as the Receiver. "We are charged with protecting the rights of policyholders, creditors and the people. It can be a difficult job."

Currently, a dozen companies

are in various states of receivership.

In the past year, the division closed out three estates. In order to more efficiently execute its duties, the division moved the operation of an insolvent company from Birmingham to Montgomery without the added expense of office rent and salaries of employees in Birmingham. That allowed the division to get a full handle on the depth of claims liability.

Additionally, the division filed a lawsuit against the principals of an insolvent company in anticipation of recovering some of the company's assets.

The division looks to close out at least one more estate in 2004.



**Denise Azar
Receiver**

Denise Azar has been with the Department for six years, all as the Receiver.

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Legal Division

Stacy Farris, a legal assistant, helps the Department's attorneys in helping enforce Alabama law and administrative regulations pertaining to the insurance industry in Alabama. The Legal Division conducts investigations into potentially fraudulent behavior by agents and companies.



Michael Bownes
General Counsel

Michael Bownes has been with the Alabama Department of Insurance for 14 years as General Counsel, and previously served as head of the Consumer Protection Division of the Office of Attorney General.

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Legal Division shuts down more than dozen illegal health plans operating in Alabama

An effective government agency requires an effective Legal Division. The Alabama Department of Insurance certainly has that.

More than a dozen illegal health plans have been shut down in Alabama over the past year due to the efforts of the Legal Division of the Alabama Department of Insurance.

"We take pride in the work we do," says General Counsel Mike Bownes. "Whether it's in a conference room or a courtroom, we make it our job to look out for the people of Alabama in regard to their dealings with insurance companies."

The Legal Division generates the regulations that govern the insurance industry in Alabama. One recently adopted was a regulation that puts severe restrictions on the use of credit scoring.

"That was a major step on behalf of consumers," Bownes says. "We have also made progress with a

pro-consumer regulation in regard to claims settlements."

The Legal Division works closely with local, state and federal law enforcement agencies in the investigation and prosecution of insurance fraud. The Alabama Department of Insurance took over regulation of the pre-need industry in the past year, and the Legal Division responded by developing a successful enforcement strategy.

In fact, the Legal Division, in cooperation with the Franklin County district attorney, obtained the first guilty plea in conjunction with the state's pre-need law.

The Legal Division had a perfect season in the courtroom, attaining success in every single proceeding.

"We're fortunate to have a strong legal team and we're fortunate that we have a strong relationship with the law enforcement community," Bownes said. "It takes a lot of teamwork."

Public Affairs Division

Commissioner Walter A. Bell, right, is a visible presence across our state. He speaks regularly to civic groups, consumer groups and industry groups. Here, Commissioner Bell is joined by Alabama Association of Insurance and Financial Advisors President Orie Knowlton of Fayette.

Public Affairs: The gate between the public and the Alabama Department of Insurance

The Public Affairs component at the Alabama Department of Insurance is a bridge between the divisions, the department and the public.

"The primary goals are to support the divisions in achieving their distinct missions and to help the public in any way possible," says Assistant Commissioner Ragan Ingram.

As Assistant Commissioner, Ingram is the department's public information officer. He handles media inquiries, assists Commissioner Walter A. Bell and division chiefs in marketing efforts and assists in lobbying the Legislature.

"The challenge we have at the Alabama Department of Insurance is to effectively let the people know who we are, what we do and where we are and how to contact us," Ingram says. "I spend a great deal of time talking with citizens who need help. They know they need help, but they don't know who to ask. My job

is to help them or get them to the people that can help them."

The Public Affairs effort works with the state's print and electronic media to keep citizens informed of news of importance related to the insurance industry in Alabama. A tool in this effort is the Department's web site, www.aldoi.gov.

In the past year, citizens gained the ability to fill out complaints online. "We will be expanding our efforts in the coming year," Ingram says.

"We want to have increased online communications with the industry and with the public."

Also, the Department will participate in the Get Smart About Insurance program in January – an event to encourage citizens to be aware of the insurance coverage they have.

"We want to be visible, accessible and responsive to the public," Ingram says. "That's the core of our mission."



Ragan Ingram Assistant Commissioner

Ragan Ingram was appointed Assistant Commissioner by Gov. Bob Riley and Commissioner Walter A. Bell in February 2003.

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Alabama State Fire Marshals Office

Inspecting buildings to ensure that they comply with state fire codes falls under the auspices of the Alabama State Fire Marshals Office. Deputy Fire Marshal Stan Ross looks over the plans of a large building to make sure that it is in compliance with Alabama law.



John Robison
Alabama State
Fire Marshal

John Robison has been Alabama State Fire Marshal for 14 years, and has been with the Alabama State Fire Marshals Office for 31 years.

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Not just fire investigators: Alabama Fire Marshals on call 24 hours a day

The fire safety duties assigned to the Alabama State Fire Marshals Office are important enough, but don't be fooled: it's only a part of the job.

If there's a disaster, Alabama State Fire Marshals are called into duty to help out.

"Our deputy fire marshals spring into action whenever and wherever they are needed," State Fire Marshal John Robison says.

"We help clear roads, inspect damage and assist local and state law enforcement and emergency management."

The State Fire Marshals Office operates under a simple formula. Its job is to provide a safer environment for citizens through the enforcement of fire, building and safety codes. It investigates criminal activities involving fires, explosions, bombings and related events. It assists in the prosecution of those charged with such crimes, as well.

Safety education is another major responsibility for the State Fire Marshals Office by striving to prevent injuries and deaths due to fire, fireworks, explosives and the like.

In the past year, the State Fire Marshals Office has been a part of a major initiative to provide smoke detectors in every residence in the state.

The State Fire Marshals Office added personnel in the last year, which has increased its capacity to conduct inspections and investigations in a timely manner.

"The more we can do on the front end should save lives," Robison says.

The Legislature has invested new authority in the State Fire Marshals Office with a new law. After the tragedy in Rhode Island, the Alabama Legislature passed an act that requires indoor pyrotechnic displays to be licensed by the State Fire Marshals Office.

Information Technology

Jelene Hardy, a member of the Applications and Programming unit of the IT Division, examines the hard drive of a computer. She also serves as the webmaster for the Department's web site.

Department's IT division has successful year, looks to even more in 2004

If an employee of the Alabama Department of Insurance has a computer problem, then it's time to call the Information Technology (IT) Division. It ensures the department's computers and web site are running smoothly at all times.

They are also only at the tip of the iceberg of what the IT Division does and is all about.

"We try to find cost-effective and time-efficient methods for our employees to do their jobs, and for Alabama consumers who rely on our department," says Larry Lauderdale, who took over as division chief in July 2003.

While it was a year of incredible progress for the IT Division, it was also a year of sadness. Lauderdale's predecessor, A. J. Beltran, passed away in February.

There is no doubt as to what was the major success of the year for

the IT Division. Upon his arrival at the Alabama Department of Insurance, Commissioner Bell asked the division chiefs what projects were critical. A common desire was to create an online agency – where more and more tasks could be accomplished via the computer.

A natural place to start was in the renewal of licenses of insurance producers. There are nearly 40,000 people currently licensed to do business in Alabama. To renew their licenses meant having to fill out a form, enclose a check and mail it in.

The IT Division said it could set up a timeline to unveil an online renewal application. Every deadline was met including the most important one – the last one. On June 19, the Department offered online renewal of licenses to the state's producers.



**Larry Lauderdale
Information Technology
Manager**

Larry Lauderdale was appointed Information Technology Manager in July 2003. He served more than 20 years in the U.S. Army, retiring at the rank of Colonel.

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Accounting & Personnel

Keeping up with all the property of the Alabama Department of Insurance and the Alabama State Fire Marshals Office is the responsibility of Audrey Griffin. Because of her efforts, the Department received a perfect property audit as conducted by the Office of State Auditor Beth Chapman.



Accounting Division provides valuable support to other divisions at ALDOI

More than \$200 million of Alabama taxpayers' money flows through the Alabama Department of Insurance. Most of that money is in the form of the state's insurance premium tax which is collected from companies on each policy they sell in the state.

If any money comes to the Alabama Department of Insurance, then at some point it comes through the Accounting Division.

"We view our division as support-oriented," says Janice Hamm, the chief financial officer of the Department and Accounting Division chief. "We aren't the regulators or the licensing authorities. We are the people that make sure the people's money is accounted for and gets to its proper place."

Most of the money ends up in the state General Fund to pay for such services as senior care, chil-

dren's services and corrections. Other, smaller portions go to the state's Special Education Trust Fund and to the Mental Health Trust Fund.

The Accounting Division is also home to the Alabama Department of Insurance's personnel office. The division is also in charge of purchasing, payroll and mail distribution – and property.

That's a good thing.

The Alabama Department of Insurance was one of a handful of agencies to receive a perfect score in its property audit conducted by the Office of State Auditor Beth Chapman.

"We are proud of that," Hamm says. "It doesn't happen very often. Some piece of equipment somehow comes up missing. We didn't have that occur this year."



Janice Hamm
Chief Financial Officer

Janice Hamm has been the Department's chief financial officer for the past three years. Prior to that, she held a similar role at the Department of Aeronautics, which merged into the Department of Transportation.

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*FINANCIAL
AND
STATISTICAL
INFORMATION*

DEPARTMENT OF INSURANCE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - CASH BASIS

For the Fiscal Year Ended September 30, 2002

	Insurance Department Fund 0921	Examiners Revolving Fund 0341	Fire Marshal Revolving Fund 0342	Service Contract Revolving Fund 0934	Total
REVENUES					
Insurance brokers and agents	\$4,558,889				\$4,558,889
Examiner's examination charge		1,726,431			1,726,431
Insurance premium tax	1,444,752				1,444,752
Policy approval fee		982,525			982,525
Examination of annual reports		682,730			682,730
Insurance corp fees and licenses	676,277				676,277
Licenses and permits			253,850		253,850
Other revenues	404,670	516,384	3,989	31,036	956,079
Total revenues	7,084,589	3,908,070	257,839	31,036	11,281,534
EXPENDITURES					
Salaries	2,887,430	1,770,617	144,746		4,802,794
Employee benefits	750,184	452,579	30,274		1,233,037
Travel - in state	38,911	230,280	6,940		276,131
Travel - out of state	23,988	115,823			139,811
Repairs and maintenance	7,730	1,143			8,872
Rent	440,173	212,777		8,000	660,950
Utilities	187,196	17,453		2,480	207,129
Professional services	887,113	529,553			1,416,666
Supplies and materials	396,472	146,752		962	544,187
Transportation equipment operations	36,129	308			36,437
Transportation equipment	87,148				87,148
Other equipment	376,555				376,555
Total expenditures	6,119,030	3,477,286	181,960	11,442	9,789,717
Excess (deficiency) of revenues over (under) expenditures	965,559	430,785	75,879	19,594	1,491,816
OTHER FINANCING SOURCES (USES)					
Operating transfers in		3,050			3,050
Operating transfers out			(3,050)		(3,050)
Reversion to the General Fund	(2,925,045)				(2,925,045)
Total Other Financing Sources (Uses)	(2,925,045)	3,050	(3,050)	0	(2,925,045)
Net Change in Fund Balances	(1,959,486)	433,835	72,829	19,594	(1,433,229)
Fund Balance, October 1, 2001	4,764,220	1,980,570	81,296	87,850	6,913,937
Fund Balance, September 30, 2002	\$2,804,734	\$2,414,405	\$154,125	\$107,444	\$5,480,708

DEPARTMENT OF INSURANCE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - ACCRUAL BASIS

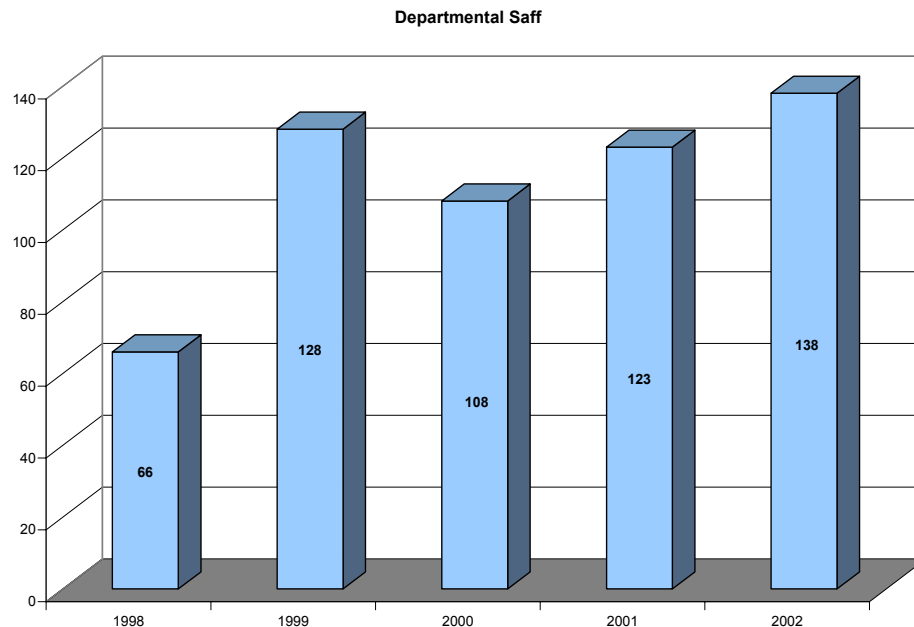
For the Fiscal Year Ended September 30, 2002

	Insurance Depart- ment Fund 0921	Examiners Revolving Fund 0341	Fire Marshal Revolving Fund 0342	Service Contract Revolving Fund 0934	Total
REVENUES					
Insurance brokers and agents	\$4,558,889				\$4,558,889
Examiner's examination charge		1,726,431			1,726,431
Insurance premium tax	1,433,380				1,433,380
Policy approval fee		982,525			982,525
Examination of annual reports		682,730			682,730
Insurance corp fees and licenses	676,277				676,277
Licenses and permits			253,850		253,850
Other revenues	404,670	516,384	4,014	31,036	956,104
Total revenues	7,073,217	3,908,070	257,864	31,036	11,270,187
EXPENDITURES					
Salaries	2,719,815	1,657,905	106,569		4,484,289
Employee benefits	750,184	452,579	30,274		1,233,037
Travel - in state	38,911	230,280	7,026		276,217
Travel - out of state	23,988	115,823			139,811
Repairs and maintenance	7,730	1,143			8,872
Rent	440,173	212,777		8,000	660,950
Utilities	187,196	17,453		2,480	207,129
Professional services	587,774	529,553			1,117,326
Supplies and materials	346,394	184,138		962	531,494
Transportation equipment operations	36,129	308			36,437
Transportation equipment	87,148				87,148
Other equipment	376,555				376,555
Total expenditures	5,601,996	3,401,959	143,869	11,442	9,159,266
Excess (deficiency) of revenues over (under) expenditures	1,471,221	506,112	113,995	19,594	2,110,921
OTHER FINANCING SOURCES (USES)					
Operating transfers in		3,050			3,050
Operating transfers out			(3,050)		(3,050)
Reversion to the General Fund	(2,925,045)				(2,925,045)
Total Other Financing Sources (Uses)	(2,925,045)	3,050	(3,050)	0	(2,925,045)
Net Change in Fund Balances	(1,453,824)	509,162	110,945	19,594	(814,124)
Fund Balance, October 1, 2001	4,258,559	1,905,243	43,095	87,850	6,294,747
Fund Balance, September 30, 2002	\$2,804,734	\$2,414,405	\$154,039	\$107,444	\$5,480,622

DEPARTMENTAL STATISTICS

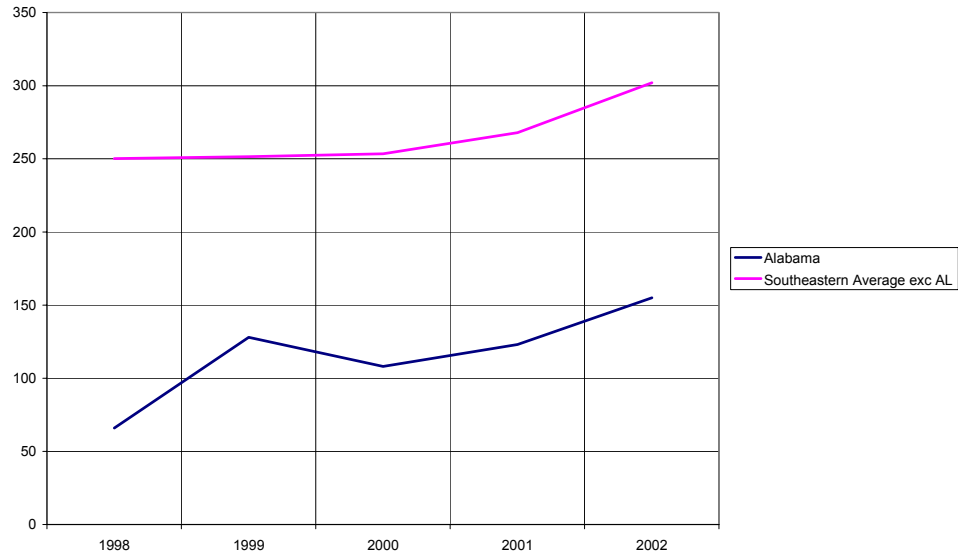
The following statistical information was compiled using the National Association of Insurance Commissioners (NAIC) Insurance Department Resources Reports (IDRR) from 1993 until 2002, as well as Departmental records. The comparative data obtained from the IDRR has not been audited. As such, it is possible that amendments have been made subsequent to the IDRR's publication and distribution by the NAIC that may not be reflected below.

Staffing



The Department of Insurance, when compared to the size of the industry they are charged with regulating, has historically been understaffed. This is a problem that has been noted in past Sunset Reviews conducted by the Examiners of Public Accounts. Efforts to rectify the problem have resulted in an average increase in staffing of 26% over the most recent five year period. This rate of growth is somewhat skewed however due to a spike in 1999 relating to the filling of a number of vacant positions. Despite this growth staffing continues to be an issue within certain divisions of the Department. The National Association of Insurance Commissioner's (NAIC) 2002 Southeastern Zone average of 302 employees continues to be significantly greater than the Departments staffing level.

**Staffing Comparison
(Southeastern Zone Only)**

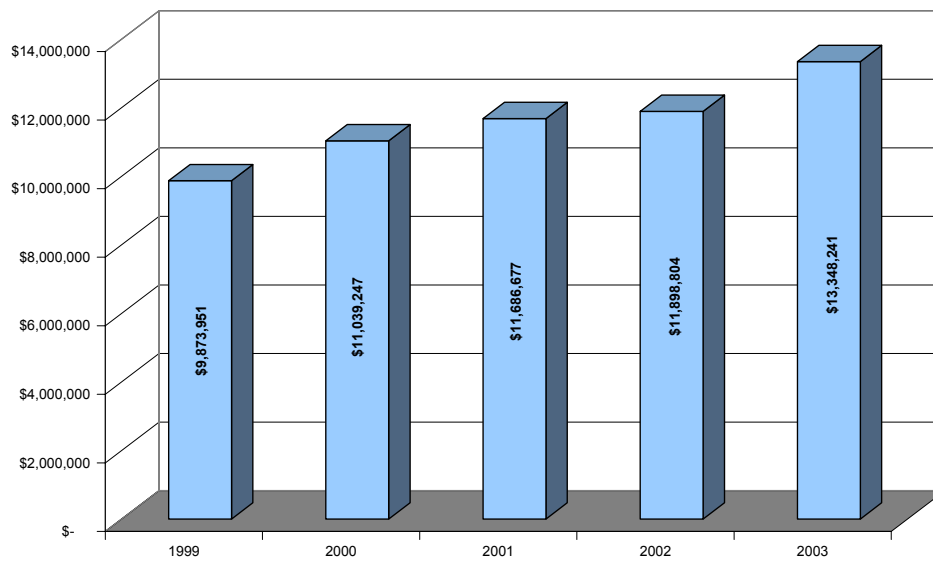


Source: NAIC Insurance Department Resources Report

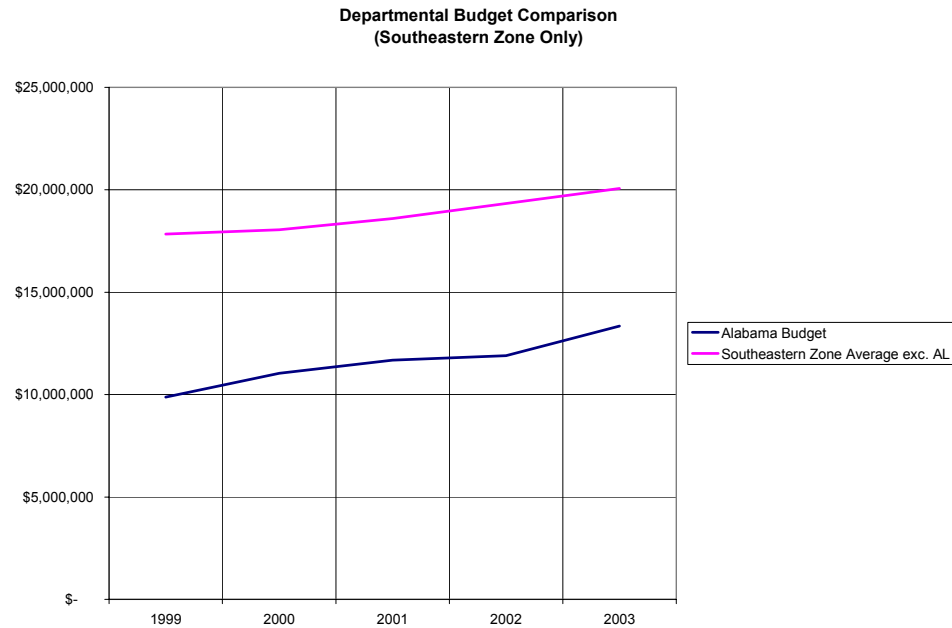
Budget

The Department's budget has steadily increased over the past five years. This trend is the result of higher personnel and benefit costs associated with the staffing increases mentioned above as well as the technological advancements the Department undertook to more efficiently serve the state's industry and consumers.

Departmental Budgets



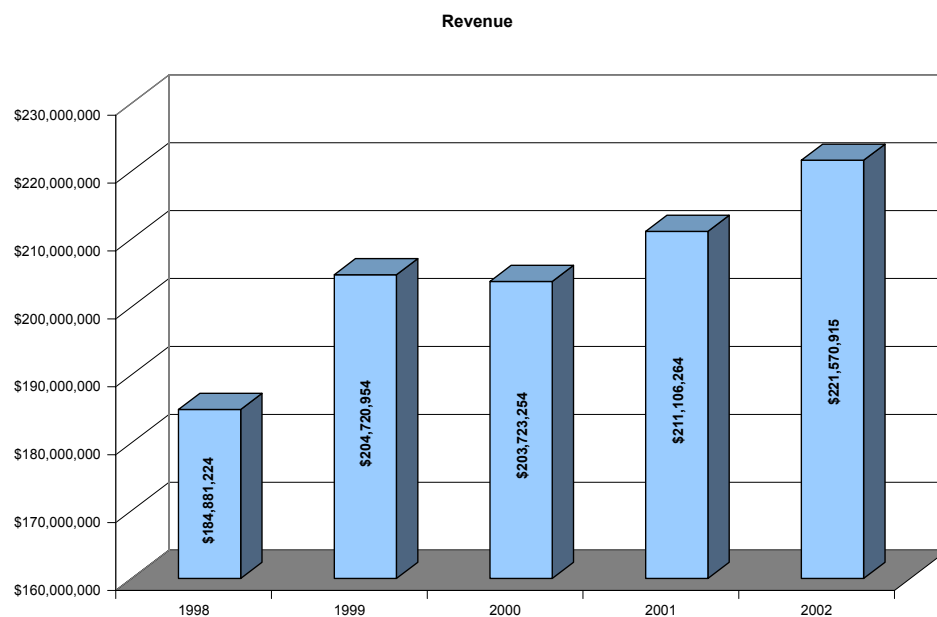
Despite these increases the Department's budget has remained well below the Southeastern Zone average for the past five years.



Source: NAIC Insurance Department Resources Report

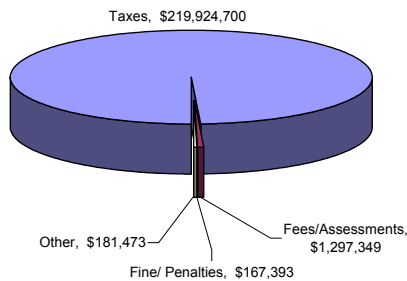
Revenue

The amount of revenue generated by the Department has reflected a 5% average rate of growth over the past five years. Since the bulk of the Department's revenue is tied to the insurance premium taxes imposed by Title 27, Chapter 4A of the Code of Alabama 1975 the average growth in revenue experienced by the Department is consistent with the average growth in premium volume for the industry.



According to the Comprehensive Annual Financial Report (CAFR) issued by the Examiners of Public Accounts insurance premium taxes accounted for 1.6% of the State's total revenue for the fiscal year ended September 30, 2002. In doing so premium taxes were the State's eighth largest source of revenue for the fiscal year ended September 30, 2002.

Revenue Breakdown



NOTE: The disparity between the amount of taxes reported by the Department and the Examiners of Public Accounts relates to the collection of additional taxes as a result of audits and/or late filings.

The revenue generated by the insurance premium tax during the 2001/2002 Fiscal Year was allocated as follows.

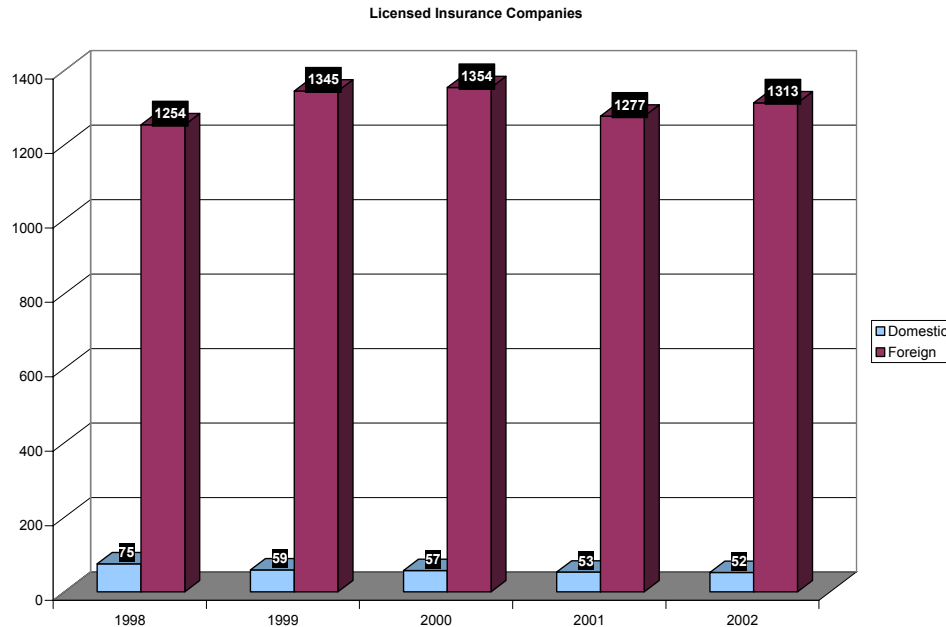
General Fund	\$179,147,000
Education Trust Fund	\$ 30,993,000
Mental Health Fund	\$ 4,525,000
Insurance Department Fund	<u>\$ 1,445,000</u>
	\$216,110,000

The Department also generates additional revenue through the collection of various fees. These fees resulted in approximately \$5,460,915 of additional revenue for the fiscal year-ended September 30, 2002.

INDUSTRY STATISTICS

Number of Companies

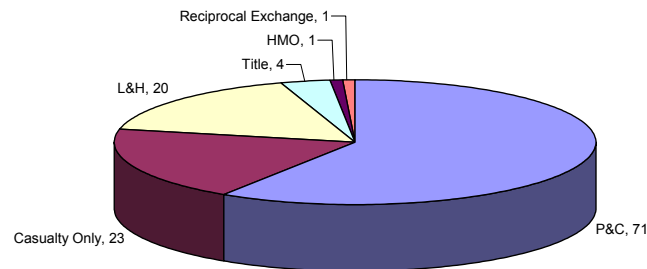
In recent years Alabama has been experiencing a trend of deterioration in the number of domestic insurance companies.



This deterioration is due in large part to Alabama's premium tax structure. Most states have a retaliatory provision in their laws aimed at protecting their domestic companies transacting business in other states from discriminatory or onerous requirements imposed by those states. The application of this law to premium taxes has resulted in an increased tax burden on Alabama domestic insurers conducting business in other states since our tax rate of 3.6% is one of the highest in the nation. The premium tax rate is also a contributing factor to Alabama's ranking 11th in the Southeastern Zone for the total number of licensed insurers. Despite the impact of the premium tax structure Alabama continues to attract new insurers.

Since 1998, 120 new companies have been licensed in the state. The majority of these new companies can be attributed to the passage of Alabama's Mandatory Auto Liability Act. This act resulted in a significant interest in the state by non-standard automobile insurers. This is evidenced by the breakdown of companies licensed in Alabama since 1998.

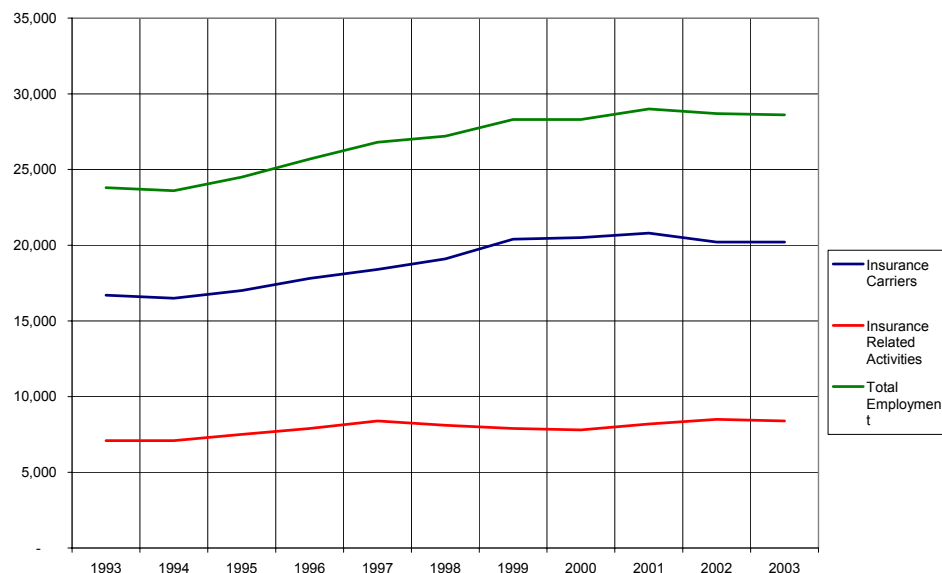
Admissions by Type Since 1998



Employment

According to the most recent data available from the U.S. Census Bureau, Alabama had a population of 4,447,100 as of April 1, 2000, 1,863,386 of which were employed. As of this same date the U.S. Department of Labor's Bureau of Labor Statistics (BLS) estimated that insurance carriers and related activities in the State accounted for 28,600 of the 1,863,386 individuals then employed.

Alabama Insurance Industry Employment, 1993- 2003



Source: U.S. Department of Labor, Bureau of Labor Statistics

The data provided by the BLS also indicated that the number of individuals employed by this segment of the industry has steadily increased over the past ten years.

Departmental data, which is significantly greater than the estimates by the BLS, reflect the following levels of industry employment for the categories listed.

NOTE: The following figures may contain duplications due to the use of captive employees for the listed services as opposed to independent contractors.

Adjusters

	2003	2002	2001	2000	1999
NEW	432	513	342	422	366
RENEWED	1399	1304	N/A	N/A	N/A

Surplus Lines Brokers

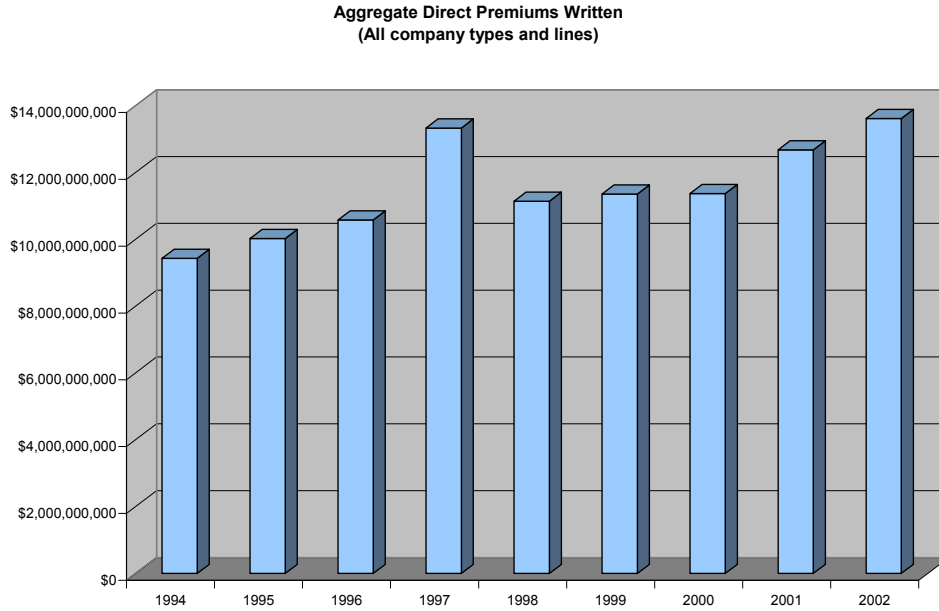
	2003	2002	2001	2000	1999
NEW	79	41	23	25	14
RENEWED	256	239	N/A	N/A	N/A

Producers

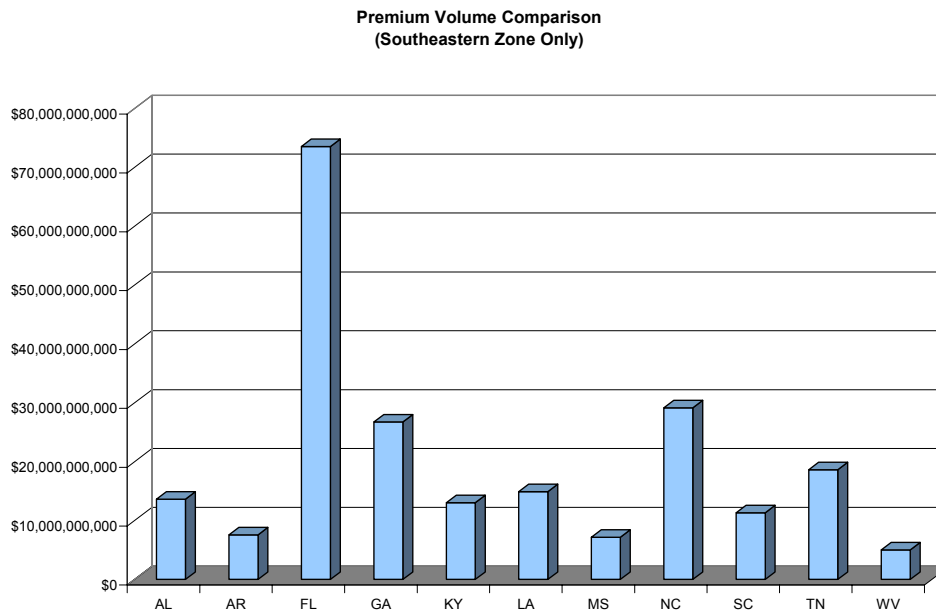
	2003	2002	2001	2000	1999
NEW	9201	15361	11916	10820	13104
RENEWED	29299	35002	N/A	N/A	N/A

Premium Volume

Premium writings in Alabama over the past nine years have trended upward.

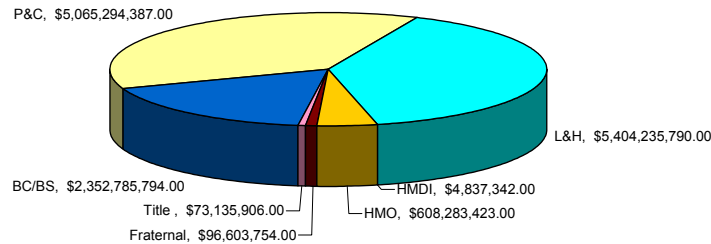


This growth trend, with the exception of a spike in 1997 relating to volume and rate increases for foreign casualty insurers, has averaged 5% per year. This rate of growth is slightly below the Southeastern Zone average of 7%.



Property and casualty companies and life and health companies accounted for 77% of the licensed premium written in the State of Alabama during 2002.

Premium by Type of Insurer



Premium Aggregates

Alabama Property & Casualty Aggregate Premiums And Losses By Line of Business
Business During The Year 2002
\$(000) Omitted

Line of Business	Domestic			Foreign		
	Direct Premiums Written	Premiums Earned	Losses Incurred	Direct Premiums Written	Premiums Earned	Losses Incurred
Fire	\$26,856,831	\$25,818,228	\$14,781,749	\$89,901,528	\$84,926,768	\$37,235,769
Allied lines	\$7,335,628	\$6,986,259	\$4,521,243	\$60,613,475	\$56,778,696	(\$19,882,081)
Multiple peril crop	\$0	\$0	\$0	\$25,235,502	\$24,705,530	\$27,295,605
Federal flood	\$0	\$0	\$0	\$13,358,812	\$12,847,930	\$4,638,192
Farmowners multiple peril	\$34,289,275	\$33,677,524	\$31,961,495	\$7,551,857	\$7,082,795	\$5,454,576
Homesowners multiple peril	\$158,329,377	\$150,470,858	\$110,890,284	\$577,562,499	\$548,548,678	\$327,118,092
Commercial multiple peril (non-liability portion)	\$23,146,142	\$21,738,397	\$11,522,913	\$220,430,060	\$209,945,000	\$120,239,130
Commercial multiple peril (liability portion)	\$26,499,608	\$23,730,691	\$6,149,244	\$121,859,632	\$114,532,331	\$74,200,931
Mortgage guaranty	\$0	\$0	\$0	\$50,208,294	\$50,304,378	\$19,380,666
Ocean marine	\$1,141,407	\$1,129,483	\$8,207	\$25,792,450	\$23,198,798	\$12,423,592
Inland marine	\$6,055,377	\$5,897,482	\$2,085,648	\$134,285,935	\$135,661,855	\$116,311,482
Financial guaranty	\$0	\$0	\$0	\$34,964,364	\$11,589,113	(\$1,649)
Medical malpractice	\$79,921,800	\$75,275,481	(\$12,812,027)	\$37,042,563	\$40,204,139	\$41,653,403
Earthquake	\$0	\$0	\$0	\$4,591,894	\$4,219,986	\$170,530
Group accident and health	\$0	\$0	\$0	\$37,087,999	\$34,938,365	\$38,166,849
Credit A&H (group and individual)	\$0	\$0	\$0	\$8,266,893	\$8,874,410	\$2,239,884
Collectively renewable A&H	\$0	\$0	\$0	\$3,638	\$3,549	(\$559)
Non-cancelable A&H	\$0	\$0	\$0	\$359	\$360	(\$797)
Guaranteed renewable A&H	\$0	\$0	\$0	\$9,280,514	\$6,215,204	\$5,883,735
Non-renewable for stated reasons only	\$0	\$0	\$0	\$4,180,322	\$4,265,263	\$4,208,155
Other accident only	\$444,338	\$437,596	\$306,975	\$1,226,078	\$1,237,280	\$411,055
All other A&H	\$0	\$0	\$0	(\$223,299)	(\$243,288)	(\$502,836)
Fed. employees health benefits program premium	\$0	\$0	\$0	\$32,306,602	\$32,306,602	\$27,626,252
Workers' compensation	\$3,737,907	\$4,293,762	\$737,223	\$335,492,332	\$309,165,996	\$210,996,627
Other liability	\$10,862,811	\$10,127,866	\$2,662,368	\$331,052,071	\$305,994,819	\$384,348,161
Products liability	\$0	\$0	\$0	\$31,744,141	\$25,327,389	(\$21,791,726)
Private passenger auto no-fault (personal injury protection)	\$0	\$0	\$0	(\$123)	(\$45)	\$656,099
Other private passenger auto liability	\$220,633,352	\$216,504,351	\$141,581,780	\$802,980,160	\$793,161,744	\$542,192,347
Commercial auto no-fault (personal injury protection)	\$0	\$0	\$0	\$15,166	\$24,167	(\$243,629)
Other commercial auto liability	\$3,445,613	\$3,387,752	\$1,284,536	\$284,631,682	\$269,643,118	\$209,133,839
Private passenger auto physical damage	\$209,891,804	\$205,232,743	\$122,115,520	\$716,876,626	\$715,447,952	\$428,901,695
Commercial auto physical damage	\$1,289,353	\$1,205,138	\$711,692	\$111,862,390	\$109,686,353	\$58,543,577
Aircraft (all perils)	\$0	\$0	\$0	\$23,843,875	\$19,804,857	\$7,652,737
Fidelity	\$0	\$0	\$0	\$13,154,898	\$12,603,490	\$7,474,096
Surety	\$219,249	\$208,340	(\$76,259)	\$43,335,977	\$40,545,226	\$31,338,121
Burglary and theft	\$33,542	\$24,143	\$9,150	\$1,357,172	\$1,414,667	\$341,211
Boiler and machinery	\$0	\$0	\$0	\$17,739,427	\$16,788,724	\$5,038,829
Credit	\$260,322	\$209,914	\$5,782	\$6,204,226	\$6,067,425	\$4,577,598
Aggregate write-ins for other lines of business	\$0	\$0	\$0	\$35,182,669	\$29,769,959	\$30,976,329
Totals	\$814,293,736	\$786,356,009	\$438,447,525	\$4,251,000,651	\$4,067,589,554	\$2,744,405,897

**Alabama Life & Health Aggregate Premiums By Product Type
Business During The Year 2002**

LIFE

	Ordinary	Credit	Group	Industrial
Life Premiums	\$ 1,335,476,841	\$ 32,003,279	\$ 259,927,230	\$ 5,024,669
Annuity Considerations	\$ 1,440,901,356	\$ -	\$ 540,511,139	\$ -
Deposit Type Contracts	\$ 23,161,776	\$ -	\$ 265,078,177	\$ -
Other	\$ 350,205,351	\$ -	\$ 324,154,708	\$ -
Total	\$ 3,149,745,324	\$ 32,003,279	\$ 1,389,671,254	\$ 5,024,669

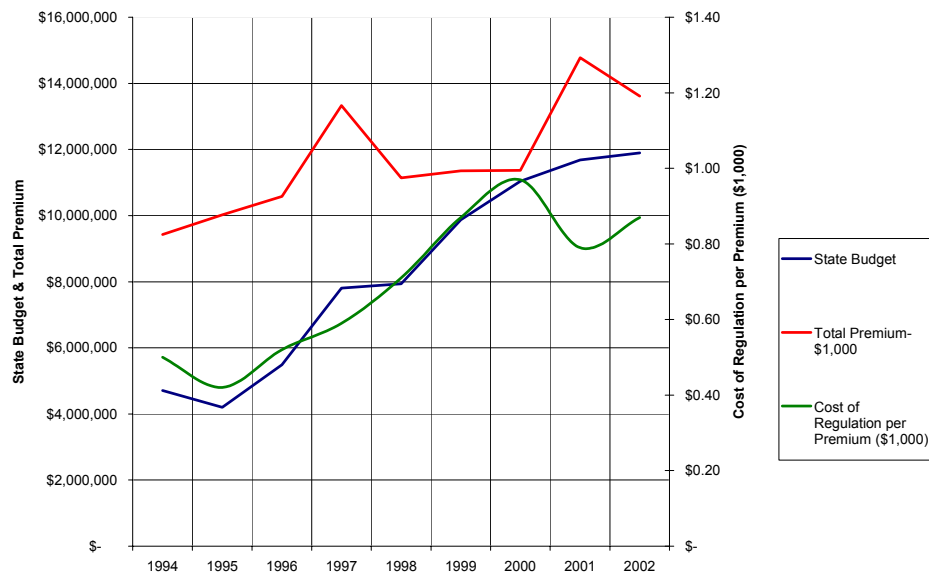
ACCIDENT & HEALTH

	Direct Premiums
Group Policies	\$ 408,963,969
Federal Employees Health Benefits Program	\$ 7,790,851
Credit	\$ 27,805,214
Collectively Renewable	\$ 970,433
Other	\$ 379,407,489
Total	\$ 824,937,956

Cost of Regulation

The cost of regulation, in its most basic form, is a comparison of the Department's annual budget to the amount of premium written in the State.

Cost of Regulation, 1994- 2002



While increasing since 1994, the cost of regulation per \$1,000 of premium has yet to exceed the 2002 Southeastern Zone average of \$1.00 per \$1,000 of premium. In fact, in 2002 the cost of regulation was only \$.87 for every \$1,000 in premium written by insurers ranking Alabama 8th out of the twelve Southeastern Zone states.

Commissioner Bell

CONTINUED FROM PAGE 3

A graduate of Spring Hill College in Mobile, Commissioner Bell now serves on the college's Board of Trustees. He also serves on the volunteer boards of the Boys and Girls Clubs of America and the Mobile Arts & Sports Association.

His past presidencies include the boards of the Boys and Girls Club of Mobile, the United Way of Southwest Alabama, Mobile United, the Industrial Development Board of Mobile and the Alabama School of Math and Science.

Commissioner Bell is also a member of the board of directors of EnergySouth, Inc., which is the holding company for Mobile Gas. He is also a limited partner of the Mobile BayBears, the city's Southern League baseball team.

Commissioner Bell is married to the former Loresa Carleton. They have two grown children. The Bells are members of the Big Zion AME Zion Church in Mobile.

"My experiences have prepared me to help create an efficient atmosphere at the Alabama Department of Insurance," Commissioner Bell says. "A great deal of my working life has been spent working to look out for the needs of people. I want the people of Alabama to know that we are here to help them first and foremost."

There have been opportunities to help both consumers and industry in Commissioner Bell's short tenure.

One of the highlights of his term in office was the creation of a regulation to severely restrict the use of credit scoring as a tool in determining insurance rates.

"We heard a lot of noise from several corners, but it was the right thing to do," Commissioner Bell says. "And that's our guiding principle here at the Alabama Department of Insurance: determining the right thing to do and then doing it."

About a month into his term of office, Commissioner Bell was faced with the prospect of hundreds of Alabama physicians losing their medical malpractice claims coverage when a company was determined to be insolvent. Two months later, nearly four dozen Alabama hospitals faced the same crisis.



Deborah Fike
Executive Assistant

Deborah Fike is the assistant to Commissioner Bell. She has been with the Department for 30 years.

Contact info:

Phone: 334-241-4101 **Fax:** 334-241-4192

Email: DFike@insurance.state.al.us

four dozen Alabama hospitals faced the same crisis.

In both cases, Commissioner Bell and the Department responded quickly. The Department helped set up temporary coverage for physicians with an existing Alabama insurer. In the other situation, the department worked quickly with a small group of the hospitals which wanted to set up a company to be a medical malpractice insurer.

Commissioner Bell is a major proponent in the use of technology. He has directed the Department to become as paperless as possible. A major first step was taken with introduction of the online license renewal program in June.

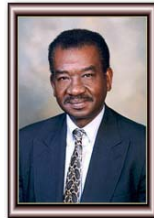
One thing that Commissioner Bell discovered when took over as commissioner that the state offered only one site for the producer licensure examination. In July, the Department launched five new sites throughout the state for producer candidates to take their examinations.

A variety of events during his tenure prompted Commissioner Bell to take a step that could eventually pay great dividends for the people of Alabama. He convened the Commissioner's Health Issues Task Force beginning in April. Consisting of industry, legal community and consumer representatives, the Task Force has been addressing health care access and affordability, medical liability, and various issues related to nursing homes and long-term care.

CONTINUED FROM PAGE 6

Plans and Health Maintenance Organizations (HMOs) are subject to Chapter 52 of the Alabama Insurance Code, as is required by federal law. Within the same bill, a revision to existing law to clarify that the Insurance Commissioner has the authority to disapprove the use of insurance policies in the state that fail to meet applicable federal standards. This legislation was introduced in the 2003 Regular Session by Representative Newton (HB 51) and Senator Larry Means of Attalla (SB 130).

► Legislation adopting model legislation developed by the National Association of Insurance Commissioners (NAIC) to create an interstate compact for the purpose of approval of life insurance rates and forms. This legislation is part of the states' efforts to keep the federal government from assuming regulation of the insurance industry. The House version of the bill (HB 252), sponsored by Representative James Buskey of Mobile, passed. The Senate version (SB 347) was sponsored by Senator Harri Anne Smith of Slocomb.

**BUSKEY****SMITH**

► Revisions to the Alabama Pre-Need Funeral and Cemetery Act to enable the Department to better regulate the industry. This legislation was introduced in the 2003 Regular Session by Representative Oliver Robinson (HB 606) and Senator Bobby Denton (SB 413).

**DENTON****ROBINSON**

► Legislation adopting the model legislation developed by the NAIC to provide for an indexed rate for the minimum guaranteed interest rate on annuities. A bill accomplishing this passed the House in 2003.

The bill (HB 46) was sponsored by Representative Frank McDaniel of Albertville. Senator Means sponsored the Senate version (SB 172).

**MEANS****McDANIEL**

► Legislation to create the Alabama Captive Insurance Company Act which provides for the creation and regulation of a special type of insurance company. A captive insurer primarily insures the risks of the company's owner or owners. It would provide another alternative to self-insurance.

► Revisions to the service contract laws to enable the Department to better regulate the industry.

► Adopt the Unfair Claims Settlement Practices Act, which sets forth standards for the investigation and disposition of insurance claims.

► Adopt the risk-based capital requirement for health organizations model act so as to provide minimum capital requirements for HMOs and Health Care Service Plans. The intention is to provide a cushion related to the risks which the organizations and plans may be subject, based on factors such as asset risk, underwriting risk, credit risk and other business risks.

► Revision of laws governing the minimum capital and surplus requirements for most types of insurers.

► Significant revision of laws related to the rehabilitation and liquidation of insolvent insurers.

► Significant revision to laws relating to the regulation of HMOs, providing increased capital and solvency requirements.

► Adopt the Viatical Settlements Act to regulate those involved engaged in the business of entering into viatical settlement agreements which provide cash to a person holding a life insurance policy who has a catastrophic, life-threatening or chronic illness or condition.

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On The Cover



Photograph by Alabama Deputy Fire Marshal Mike Haynes.

The cover features an April 2003 photograph of an Alabama Highway 22 bridge over the Tallapoosa River near the Wadley community in Randolph County, Alabama.

Departmental Contact Information

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State of Alabama
Department of Insurance

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